

1 Title: **SYSTEM AND METHOD FOR BUSINESS TO INVESTOR EXCHANGE**
2 **FOR RAISING CAPITAL AND FOR CREATING A SECONDARY**
3 **MARKET FOR PRIVATE EQUITY**
4

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7 RELATIONSHIP TO OTHER APPLICATIONS

8 This application claims priority under 35 U.S.C. §119(e) from U.S. Provisional
9 Application Serial No. 60/182,317, filed February 14, 2000.
10

11 FIELD OF THE INVENTION

12 This invention relates generally to securing investment capital and establishing a
13 secondary market for equities. More particularly the present invention is a system and method
14 for creation of a secondary market for sale of private equity, both limited partnership interests
15 and individual companies, and sale of restricted stock of public securities. The present invention
16 also creates calls and puts on private equity.
17

18 BACKGROUND OF THE INVENTION

19 Investment capital is the life blood of new ventures. Absent appropriate financing, a
20 company with very good ideas can cease to exist. Whenever a company desires to obtain
21 funding through public or private placements it is necessary for a company to create a business
22 plan, and get the business plan into the hands of appropriate investors of all types both private
23 and institutional so that a judgment can be made as to whether an investment is worthwhile.

24 Private equity is the fastest growing asset class. However, it is an asset class with the
25 least amount of liquidity. Once perceived as extremely risky, investing in private companies is

1 becoming more widespread as individuals, corporations and traditional conservative institutional
2 investors (mutual funds, insurance companies, etc.) are now investing directly in private
3 companies to pick up incremental return. Additionally, venture capital funds continue to invest at
4 record paces. However, until the full sale or a secondary public offering occurs, there is no
5 marketplace for an investor to sell securities that have been obtained during early round start up
6 of the business. In 1999, over \$48 billion poured into private companies in the U.S. alone, up
7 151% from 1998. The \$48 billion represents a nine-fold increase in the last five years. Although
8 the public markets are currently volatile, investments in private companies have continued
9 unabated, as these investors are focused on a 40-year average annual return for venture capital
10 investments of 45%, and the fact that "the performance of venture capital has almost no
11 correlation with the stock market." Despite the fact that all this money keeps pouring in, there is
12 *still* no marketplace to buy and sell these securities.

13 One way to sell securities is to convince an investor of the worthwhile nature of the
14 investment that is to be sold. This is typically done by meeting with and providing to investors a
15 wide variety of materials, including business plans, presentations, and other supporting
16 documents. The difficulty with having such business plans and documents reviewed is that
17 investors are frequently inundated with business plans and hence do not have a sense of urgency
18 in reviewing the business plans and making their investment decisions. Further, many such
19 submissions are made to investors in a "shotgun" fashion without regard to the actual interests of
20 the investors.

21 What would be truly useful is a system and method for providing a secondary market
22 for securities that is accessible by accredited investors over a network. Such a system would
23 provide targeted marketing of securities to investors that match the interests of the investor with

1 the type of security available for sale. Such a system would allow, in an automated way, a
2 review of business plans and ancillary documents in an efficient and effective manner, such that
3 an investment decision can be rendered by institutional and private investors. Such a system
4 would utilize, preferably, but without limitation, the Internet to create the marketplace, thereby
5 establishing a secondary market for the buying and selling of private equities, both of individual
6 companies and of limited partnership interests.

8 SUMMARY OF THE INVENTION

9 It is therefore an object of the present invention to establish a secondary market for the
10 buying and selling of traditionally illiquid securities over a network.

11 It is yet another object of the present invention to create a server based secondary market
12 for private equities when individual investors wish to cash in on their initial investment.

13 It is a further object of the present invention to create a secondary market to permit the
14 buying and selling of private equities and interests in limited partnerships.

15 It is yet another object of the present invention to create a secondary market for the resale
16 of restricted stock of public securities.

17 It is another object of the present invention to create calls and puts on private equities,
18 both on individual companies and on limited partnership interests.

19 It is still another object of the present invention to register buyers of securities and their
20 specific interests so that securities offerings can be targeted to those investors having the
21 appropriate interest.

22 It is a further object of the present invention to qualify both businesses and investors to
23 view business plans of entrepreneurs in a timely fashion.

1 It is a further object of the present invention to prescreen those securities that are
2 available to investors to permit only the highest quality securities to be available for investment.

3 It is yet another object of the present invention to assist entrepreneurs in developing an
4 appropriate business plans for review by investors.

5 It is a further object of the present invention to create a video or other audio visual
6 interactive presentation method for an entrepreneurs to present the business opportunity to
7 investors.

8 It is yet another object of the present invention to assist entrepreneurs in creating the
9 business plans and in facilitating the presentation of those business plans to institutional and
10 private investors.

11 It is yet another object of the present invention to present a brief video or other audio-
12 visual presentation by the actual entrepreneur over a network to those investors who are
13 interested in potentially investing in the business opportunity.

14 It is a further objective of the present invention to create a server system on the Internet
15 that "pushes" audio-visual presentations of business opportunities to qualified investors.

16 These and other objectives of the present will become apparent to those skilled in the art
17 by a review of the specification that follows.

18 The present invention is a system and method for creating a secondary market for
19 otherwise illiquid securities over a network that is preferably, but without limitation, the Internet.
20 Using the present invention, a vehicle is created that provides liquidity for this illiquid market
21 and creates an alternative exit strategy for Venture capitalists (VCs), investors, incubators, angels
22 round financiers, pension funds, corporations, and founders. Founders and officers are able to

1 liquidate a non-material portion of their equity, enabling diversification, providing liquidity, and
2 capitalizing on the progress of the company.

3 One aspect of the present invention is that all sellers of securities will have those
4 securities prescreened prior to them being available for marketing over the system of the present
5 invention. For example, it is not the intention of the present invention to sell just any security
6 that a seller desires. Rather, only those securities that are venture backed and have an established
7 advisory board assisting the corporation are permitted to be offered for sale using the system and
8 method of the present invention. This litmus test is not the only means of assuring quality
9 securities. Other verification and vetting procedures known in the industry can also be used to
10 assure that only quality securities are available.

11 Qualified investors register with the system of the present invention. As part of the
12 qualification, financial information is obtained that permits a judgment that the investor is indeed
13 a qualified one. Along with such qualification information, the investor also creates an
14 investment profile that notes, if desired, the types of securities in which the investor is most
15 interested. This is kept in an accredited investor file on the server of the present invention.
16 When appropriate securities are made available for sale, the investor is notified if the investment
17 fits the investor profile.

18 As noted above, securities are first qualified as being of appropriate quality using criteria
19 such as, and without limitation, VC backed investments. Once the security is qualified and
20 prescreened, it can then be sent together with a synopsis page and a brief video to those who
21 might be interested in purchasing the security. The present invention also performs due
22 diligence on buyers so that they are noted as qualified investors.

1 Once a particular buyer is interested in a security, the present invention assists and
2 facilitates in the due diligence necessary for buyers to perform before actually purchasing the
3 security in question. The present invention can link buyers with sellers in conference calls and
4 assist in scheduling conferences between buyers and sellers to facilitate the sale.

5 In addition to the various videos and business plans, which are anticipated to be
6 distributed by the present invention, other business agreements are also stored in the storage
7 associated with the systems server of the present invention. For example share holders
8 agreements, business plans, financial information, capitalization tables, corporate charters, are all
9 documents that will be readily accessible to qualified investors once they have been qualified. In
10 short, the system will not allow access of simply anyone to this information but on to qualified
11 buyers. Further, the information that will be available will be only that information which has
12 been prescreened and meets certain quality characteristics.

13 Thus the present invention is not a listing service but rather is an exchange marketplace,
14 operating over a network, wherein certain safeguards have been applied and wherein buyers and
15 sellers are placed together so that they can make an independent judgment regarding the
16 purchases and sale of a particular security.

17 Major sources of securities to be sold may be derived from those IPO's which were
18 projected to be accomplished but which were pulled for various reasons. Typically such
19 potential IPO's represent a desire by a company to obtain investment capital and therefore
20 represent an opportunity for securities in a secondary market to be sold to develop that capital in
21 the event that the IPO does not take place.

22 In summary, the present invention is a system and method for trading private equity in a
23 secondary market over a network. Thus a retro capitalist, a founder, or any investor will be able

1 to sell all or part of their equity via the network. Only qualified individual buyers will be
2 permitted to participate in this private equity transaction.

3 In certain instances the organization administering this private equity market will be able
4 to take positions by purchasing private equity. This will result in the entity having an inventory
5 of securities in the various companies who desire to sell private equity. The private equity can
6 then be offered to other individuals who may be interested in obtaining that private equity from
7 time to time.

8 Profiles for qualified institutional buyers are developed as part of the present invention
9 and, where the profile so indicates, the system of the present invention introduces qualified
10 institutional buyers to those selling private equity that matches the profile of interest of the
11 qualified institutional buyers.

12 By dealing with venture-backed companies only, there is more of an opportunity that due
13 diligence has been performed on the company especially those companies that have later stage
14 venture-backed capital.

15 Using the system of the present invention, buyers may drive a particular transaction by
16 putting out a bid or notice that they are interested in a particular type of private equity asset.

17 That information request can proceed to the server of the present invention with a bid being sent
18 to private companies who have the type of asset desired by the buyer.

19 The business model of the present invention permits the establishment of a first-of -its-
20 kind secondary market for traditionally illiquid securities over the Internet. It also allows the
21 entity that runs the system of the present invention to charge sellers when securities are sold.
22 However this is not meant as a limitation. If a buyer is driving the transaction, the buyer may be

1 charged a transaction fee as a result of the system of the present invention introducing the buyer
2 to sellers of securities of interest to the buyer.

3 The types of securities to be sold using the system of the present invention are any
4 secondary interests in, for example, limited partnership interests, private direct companies, and
5 portfolios of direct private companies. The system will enable calls, puts, and other derivative
6 structures on limited partnership interests, private direct companies, and portfolios of private
7 direct companies.

8 In yet other operations of the present invention, affiliations with lending institutions will
9 allow loans against private equities to take place.

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11
12 BRIEF DESCRIPTION OF THE FIGURES

13 **Figure 1** is an overview of the conceptual architecture of the business to investor
14 network.

15 **Figure 2** illustrates one architecture of the present invention.

16
17 DETAILED DESCRIPTION OF THE INVENTION

18 As noted above, the present invention is a system and method for creating a secondary
19 market for otherwise illiquid securities over a network that is preferably, but without limitation,
20 the Internet. The system is server and network based, as more fully set forth below.

21 In a basic embodiment, the present invention auctions venture-backed private equities
22 over the Internet to qualified investors. Typical sources for the private equities are pre-IPO
23 securities and securities from pulled IPO's. The operator of the system may sometimes take a

1 position in certain private equities (i.e., a "put") so as to have "inventory" to later sell on the
2 system.

3 In a typical buyer-driven transaction using the present invention, a qualified buyer puts
4 out a bid for private assets in a particular area. Sellers who subscribe to the system receive notice
5 of the bid and can then respond.

6 In a typical seller-driven transaction using the present invention, a seller puts out a notice
7 on the system of equities for sale. Buyers who subscribe to the system receive notice and can
8 respond.

9 Either the buyer, the seller, or both may be charged by the system, depending on the
10 transaction.

11 Referring first to **figure 1**, the overall conceptual architecture of the business to investor
12 network is illustrated. Businesses **10, 12, 14** requiring investment funding create a brief video,
13 and a business plan (preferably no more than five minutes) which will be used to present the
14 officers of the company and the business investment opportunity to investors. These videos
15 **16,18, and 20** are prepared and sent via network **22** that is preferably, but without limitation, the
16 Internet to the business investor server **28**. The server **28** then stores both the video for each
17 individual company **16, 18, and 20** together with the associated business plan **32, 36, and 40** for
18 the respective company. The organization running the server **28** of the present invention also
19 qualifies both individual investors **24** and institutional investors **26** such as pension funds,
20 insurance companies, and the like. Once these individual and organizational investors are
21 qualified, they receive both access to the data base of the server **28** and are registered investors
22 with the system.

1 Part of the registration process is to provide the point of contact and the associated
2 electronic mail address to which information can be sent.

3 Upon receipt of a business opportunity and request for investment funds, the server 28
4 "pushes," via e-mail, the video presentation 16, 18, and 20 to the individual investors 24 and the
5 institutional investors 26 over the Internet 22. The investors can then view the five minute video
6 presentation and, if interested, can review an associated business plan 32, 36, and 40 which is
7 attached to the e-mail that is sent to the investors. Alternatively, the investors can access the
8 server 28 of the present invention and directly access the business plans that are stored on the
9 server.

10 It should be noted that the use of the Internet 22 is the preferred medium for transmission
11 of the investment opportunities. However this is not meant as a limitation. Other intranets, and
12 wireless networks would also satisfy for the transmission of the associated information.

13 With the bandwidth available to those on the Internet increasing dramatically in recent
14 times, the transmission of video information over the Internet is today a reality. Thus, it is a
15 simple matter to transmit a five minute presentation by the Chief Executive Officer of a
16 particular company from the server 28 of the present invention to the individual and institutional
17 investors who have interest in receiving such presentations.

18 Referring to **Figure 2**, the system architecture of the present invention is illustrated. The
19 system operates with a series of servers, generally represented as a server functionality which
20 gives rise to the various functions of the present invention. Users 300, who are accredited and
21 investors access the system over the Internet 304. It should also be noted, however, that personal
22 computers 300 are not the only way to access the present invention. For example, personal
23 digital assistants having wireless capability 302 can also be connected to the network, as can

cellular telephones having the capability to interact over the Internet. Such cellular telephones **303** connect to the network typically over the cellular network and thereafter can access the system over the Internet **304**. When accessing the system of the present invention, an initial firewall **310** is in place to add security to the functionality of the present invention. Web server **306** provides the web service to the various users over the Internet **304**. When a user desires to either register or research information relating to trades, the user accesses the system via the web server **306** and provides appropriate identification. Web server **306** then accesses an authorization server **308** via an internal firewall **312**. These firewalls **310**, **312** provide additional security to the overall system only allowing accredited investors or accredited companies to place securities on the system or place trades over the system.

Once authorization server **308** verifies that the user **300** is authorized to access the system, the user can obtain information from the server functionality over an intranet **314** to which the various server functionalities are connected.

For example, content server **316** stores various content associated with qualified investments. Business clients **328**, audio information **330**, video information **332**, and statistical information **334** are all stored in storage that is associated with content server **316**. In addition, content server **316** has additional input **350** which comprises scanners, or other type of input that allow other type of information from companies to be stored on the various databases associated with the content server.

Administration server **318** administers and stores information on accredited investor storage **336**. Also, those companies that have securities to be sold are stored in database **338**. It should be noted that this is information that relates to the investors and the companies and not the specific content that is to be served to the accredited investors. Thus, the database of profiles

1 of the investors is stored in the accredited investor database **336**. This information comprises
2 contact information and information relating to the interest level of the accredited investor in
3 particular types of investments.

4 Communications server **320** manages all of the communications associated with the
5 present invention. It allows for e-mail between companies and accredited investors and between
6 the entity that runs the present invention and the accredited investor. E-mail information is
7 stored in e-mail database **340**, which is associated with communications server **320**. In addition,
8 communications server **320** stores push instructions **344**, which, in association with e-mail stored
9 in the e-mail database **340** allows for certain information on the content server to be "pushed" to
10 the e-mail of accredited investors who have expressed particular interest in certain types of
11 investments.

12 Work flow server **322** manages the work flow associated with bringing new companies
13 and securities for sale into the system of the present invention as well as to manage the overall
14 work flow associated with registering an accredited investor. Information concerning
15 companies, corporate data and other related data are stored in database **346**, which is associated
16 with workflow server **322**.

17 Market analysis server **324** provides additional statistical information and research
18 information to investors who desire to research a market in association with the particular
19 investment that they wish to make. Provision is also made in the present invention for additional
20 servers **326** to handle other types of workloads.

21 It should be noted that the system of the present invention is scalable by simply adding
22 additional servers to the various functionality together with load balancing servers so that the

1 work load on any one server and functionality is even. This, in addition, optimizes the response
2 to investors 300 who desire to access the system for investment purposes.

3 In addition to the access over the network, provision is made in the present invention for
4 internal analysts 348 to access the system over intranet 314. To do so, such internal analysts 348
5 access the system through firewall 312 and only after providing appropriate identification to the
6 system. In this way, internal security is maintained for those analysts as well.

7
8 Another aspect of the business model of the present invention is that the presentation of
9 these investment opportunities are for a limited time only. This has particular advantages.

10 At the present time it could take any where from three to six months in order for a
11 business plan to be reviewed by private investors. This is due to the large volume of such
12 business plans that are typically received by both individual and private investors. When a
13 company submits such a business plan it does so in the hopes of garnering the interest of such
14 investors. However no time table is typically set for such a response. Therefore, the
15 entrepreneurs are left with no knowledge of when, if ever, funding will arrive. Alternatively the
16 entrepreneur might be forced to accept an offer from a single investor which may not be the best
17 offer for the company.

18 Using the system and method of the present invention, entrepreneurs can be assured that
19 their business plans will be sent to a number of appropriate investors, some of whom may be
20 initially unknown to the entrepreneur.

21 On the investor decision side, the investors are aware, when they sign up for the service
22 of the present invention, that there will be a limited period of time during which they have to
23 respond. Those investors who do respond within an appropriate period of time set by the entity

1 managing the server of the present invention will have their offers considered. In this fashion,
2 some pressure is placed upon the investors to make timely offers. In addition, by having such
3 pressure placed upon the investment community, more serious offers will be received by the
4 server of the present invention in a timely fashion, for distribution to the entrepreneurs.

5 Secondary Market

6 An additional problem subsequently occurs in selling securities in which an investor
7 invests on a secondary market. This situation occurs when an investor wishes to capitalize on an
8 initial investment prior to an IPO occurring. Typically equities available on the secondary
9 market are made available to institutional investors. Individual investors are typically not
10 informed of the availability of such equities on the secondary market, and if they are informed, it
11 is typically too late.

12 Thus the present invention also comprises a file of equities that are offered on the
13 secondary market which are connected to the server of the present invention. When the
14 individual investor or institutional investor wishes to sell some securities on the secondary
15 market, those securities are made available through the server of the present invention. The
16 server then "pushes" e-mail and associated information relating to the equities to be offered.

17 Individual and institutional investors have an opportunity then to respond to the offers of the sale
18 of the equity on the secondary market. Again a time schedule is set for offers. The highest
19 bidder for the equity offered during the time period buys the equity.

20 Another aspect of the present invention is that a certain percent of the equities that are
21 available on the secondary market will be specifically made available to individual investors. In
22 this fashion institutional investors will not be the only ones who can benefit from the sale of such
23 equities the secondary market.

1 A further aspect of the present invention is that the securities that are offered on the
2 secondary market will be those securities that had originally been reviewed and approved by the
3 entity that runs the server of the present invention. Thus the server will be offering the same
4 securities on the secondary market as it helped place in private placement initially. Thus
5 investors can have some additional assurance that the products being sold are in fact those
6 products deemed to be worthwhile in the first instance to be sold to investors initially.

7 The typical equipment needed for the present invention comprises an assembly of
8 standard servers, with an exemplary embodiment illustrated as follows:

9 The Web Server comprises:

- 10 * Dell 6450 w/4 Intel 700 MHz Xeon Processors
- 11 * 36 GB Ultra 3 SCSI Hard disk
- 12 * 4 GB SDRAM
- 13 * 2 Intel Pro 1000 Gigabit Network Interface Cards

14
15
16 The Content Server:

- 17 * Dell 6450 w/4 Intel 700 MHz Xeon Processors
- 18 * 4 - 36 GB Ultra 3 SCSI Hard disks (usable capacity depends on RAID
19 configuration)
- 20 * 8 GB SDRAM
- 21 * 2 Intel Pro 1000 Gigabit Network Interface Cards
- 22 * Additional external storage may be added (either SCSI or Fibre
23 Channel)

24
25
26 All other servers:

- 27 * Dell 2450 w/1 Intel 733 Mhz Pentium III
- 28 * 36 GB SCSI Hard Disk
- 29 * 1 GB SDRAM
- 30 * 1 Intel Pro 1000 Gigabit Network Interface Card

31
32 These servers are illustrative of the type of server that will find utility with the present
33 invention. Other servers from, for example IBM, Sun Microsystems and Compaq will also be
34 useful with the present invention, so long as they have the same or similar capabilities.

1 Similarly, there are no special requirements for the workstations that access the system
2 either via the intranet 314 or over the Internet. PC or PC compatible workstations running
3 Windows, Windows NT, Windows 2000, having a web browser such as Netscape or Microsoft
4 Explorer, having an Intel, AMD or other processor with associated RAM and storage will all be
5 useful for the present invention.

6 **NOTE *** Can Mac's, Linux, Solaris, etc. be used? *****

7 Assistance in generating the brief video to be distributed to investors is made by the
8 entity that is administering the server of the present invention or some entity that is contracted
9 for by the server manager. In this fashion a consistent high quality product can be generated for
10 subsequent distribution.

11 A system and method for the generation of investment interest between business and
12 investors has been illustrated together with a system and method for the sale of equities on the
13 secondary market. By virtue of the novel use of a brief video clip, investors will be more
14 inclined to deal with a particular firm than they would otherwise be based solely upon seeing a
15 written product. Thus the present invention enhances the person-to-person relationship between
16 an entrepreneur and an investor and encourages subsequent meetings between the parties.

17 It will be appreciated by those skilled in the art that other embodiments of the present
18 invention are possible without departing from the scope of the invention as disclosed.